markets. Consumer prices for these products and for public sector services, in turn, should shy away from undue subsidies which besides encouraging resource

to an improvement in the balance of payments, a reduction in inflation and to more satisfactory and sustainable economic growth rates.

of industrial countries to adopt protectionist measures. These pressures, although understandable given present levels of unemployment, must be resisted.

Sir Arthur Lewis

What should be the LDCs' engine of growth?

Extracts from the Janeway lectures on "The evolution of the international economic order" given by Sir W. Arthur Lewis at Princeton University (U.S.A.) in March 1977. Professor Lewis will be one of two speakers at the forthcoming annual lecture program of the Per Jacobsson Foundation. The lecture program is scheduled to take place on Sunday, September 25, 1977, at 2:30 p.m. in the atrium of the Fund's headquarters building in Washington, D.C.

The final element of the international economic order I wish to consider is the dependence of the developing countries on imports into the developed countries for their engine of growth. When the developed countries are expanding, as in the thirty years up to 1913, the developing countries move ahead; when the developed are depressed, as for practically the three decades which included the two world wars, the developing are almost at a standstill. And when the developed revive and grow faster than ever, as between 1950 and 1973, the developing also grow faster than ever. . . .

This sort of dependence is inconsistent with one of the objectives of the developing countries, namely that their per capita incomes should grow faster than those of the developed—that the gap between standards of living be narrowed, and ultimately eliminated. I think most people interested in international relations would welcome the narrowing of the gap, whether they are rich or poor. But consider the effects of the link. Theoretically, one of the simpler ways of narrowing the gap would be for the richer countries to grow less rapidly, as their environmentalists are urging them to do. But if the richer countries grow less rapidly, the poorer countries will grow less rapidly too, and will indeed get the worst of the bargain, since the terms of trade will move against them. . . .

When the LDCs switch from exporting primary products to exporting manufactures to the rich countries they exchange one dependence for another. The potential scope is much wider. There is a limit to the amount of tea or cocoa or coffee that the rich countries will buy, but with exports of manufactures from LDCs standing only at 8 per cent of world trade in manufactures in 1975, potentially unlimited growth is available in this area to LDCs over the next decade or so. . . .

The fact is that the LDCs should not have to be producing primarily for developed country markets. In the first place, they could trade more with each other, and be less dependent on the developed countries for trade. The LDCs have within themselves all that is required for growth. . . .

If there is going to be an exception to this underlying dependence, it is going to be in the area of food. Currently the LDCs have enough land to feed themselves if they cultivate it properly, but their populations are growing rapidly, and this may not always be so. If population overtakes food supply in Asia, the Asians will look to the rest of the world for cheap food. If this is not forthcoming they will almost certainly look for land. Three centuries ago North and South America, Australia and Africa were empty continents. The world's population was concentrated in Europe and Asia. The Europeans seized the two Americas and Australia, and commenced a rapid peopling of these continents, to the exclusion of Asians. They also taught the Asians how to bring about a population explosion. Now that the Asians have followed their example and doubled the rate of growth, they too need more space. This will not be a problem if the Asians quickly control their growth; or if agricultural technology improves even faster than we expect; or if Europe and the Americas can feed the Asians cheaply, and promote both policy coordination and adjustment among its member countries. I should stress that only in this manner the Fund's ultimate objectives of encouraging the expansion of world trade, maintaining

to the adjustment process. This conditionality is based on an assessment of the adjustment *need* itself and of how the adjustment *effort* should be phased over time. Policy instruments are then geared to

tional community's desire to maintain and indeed enhance the Fund's role at the center of the international monetary system for the benefit of all its member countries.

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take Asian manufactures in return. Otherwise, the prospect for intercontinental peace in the twenty-first century is not good.

. . . We keep telling LDCs that they should form customs unions to enjoy the benefits of regional integration, especially in coordinating their industrial development. They try to do this, and have produced a series of integration treaties, in Latin America, Central America, Andean America, West Africa, East Africa and South East Asia, all of which are in deep trouble. The two main reasons are well known. First, each country wishes to produce for itself the whole range of light manufactures, so it is really only a few large-scale heavy industries that are in practice eligible for integration, and over these there is much quarrelling. Secondly in every region some countries are more advanced than others, and benefit more from integration, at the expense of the others. So the agreement is unstable.

Actually, up-and-coming industrial nations do not depend on protection in the markets of impoverished neighbours. They go where the market is, namely in the rich countries. . . . The up-and-coming industrial nations of the next two decades, led by Brazil, Mexico and India are going to make their way primarily through trading with the richer countries rather than through trading with the poorer. The parcelling of the world market into a set of regional enclaves has some merit if the developed countries close off their markets to the manufactures of developing countries. If not, it will not survive except where it is cemented by strong political considerations, as in Western Europe.

In any case the individual LDC does not have to be so dependent on exports in its development strategy. It should look more to the home market. What limits industrial production for the home market is the small agricultural surplus of that 50 per cent or more of the labour market which is engaged in growing food for home consumption. Transform this mass of low level productivity and the whole picture changes. The LDCs cease to have to import food, and instead penetrate the rising world market for cereals, beef and feedingstuffs. The factoral terms of trade move dramatically in favour of the traditional tropical agricultural crops, and the home market for industrial products and high level services becomes the engine of growth. These countries on becoming richer would do absolutely more trade than they do at present, but it would be more varied, and would also be in smaller proportion to national income, if the import propensities of today's rich countries are any guide.

In sum, international trade became an engine of growth in the nineteenth century, but this is not its proper role. The engine of growth should be technological change, with international trade serving as lubricating oil and not as fuel. The gateway to technological change is through agricultural and industrial revolutions, which are mutually dependent. International trade cannot substitute for technological change, so those who depend on it as their major hope are doomed to frustration. The most important item on the agenda of development is to transform the food sector, create agricultural surpluses to feed the urban population, and thereby create the domestic basis for industry and modern services. If we can make this domestic change, we shall automatically have a new international economic order.

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